

AGENDA ITEM 5
AUDIT RESOLUTION STATUS - REAL ESTATE AUDIT FINDINGS
(CURRENT YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2008

Partner/Property	Auditor's Finding and Recommendation	Auditee Response and Status per Investment Office	Finding Status / Auditor Comment
CIM Group General Partner (Dec 2008)	1. (III) Portfolio Management: Disbursements - The Auditors noted several invoices relating to abandoned projects (dead deal costs) which did not specifically identify which Fund the prospective property would be purchased under. In order to properly document allocated costs, the Auditors recommend that CIM request that their vendors include a Fund name for each prospective property on the face of the invoice.	1. (III) CIM Group response: We will request that vendors include a Fund name for each prospective property on the face of the invoice (if known). Response from Investment Office: The Investment Office believes the corrective action taken resolves this issue.	1. COMPLETE: The Auditors concur with management's corrective action.

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<p>CIM Group General Partner</p> <p>Property Level Hollywood & Highland</p> <p>(Dec 2008)</p>	<p>2. (IV.A.1-2) Accounting and Financial Procedures: Disbursement Testing – The Auditors noted two payments which were considered the responsibility of property management pursuant to Section 1.3(A) of the Agreement, as follows:</p> <p>(1) One invoice totaling \$12,600 for the placement of an Asset Manager at the property. (2) Two invoices billed by CIM Group for the time allocation of their corporate IT personnel, totaling \$15,953. This is generally considered an overhead cost and the responsibility of property management.</p> <p>The Auditors recommend that property management reimburse the property for the overhead expenses listed above. They further recommend that property management refrain from charging overhead costs to the property.</p>	<p>2. (IV.A.1-2) CIM Group response: We noted that the Asset Manager is a member of the on-site management team and his placement fee is properly chargeable to the property under Section 1.3(B) of the agreement, and so we do not believe the \$12,600 placement fee should be reimbursed. Similarly, the \$15,953 corporate IT charge represents a reimbursement at cost (based on salary and benefits costs), allocated to the property based on the amount of time (much of it on site) IT personnel spend on H&H IT matters. This is also properly chargeable to the property and should not be reimbursed.</p> <p>Response from Investment Office: The Investment Office concurs with the CIM Group that the placement fee for the Asset Manager is a property cost. The management agreement allows the CIM Group to: "... recruit, hire, employ, supervise and discharge such on-site personnel". The Investment Office interprets this as establishing the CIM Group's authority over personnel recruitment, but does not assign financial obligations associated with the recruitment. In addition, the Asset Manager resides at this specific property and his wages are billed exclusively through this property.</p> <p>Additionally, The Investment Office concurs with CIM Group's response regarding IT costs allocated to the property based on the time incurred at this specific property.</p> <p>The Investment Office believes these items are closed.</p>	<p>2.1 COMPLETE: Notwithstanding property management's response, the Auditors recommendation remains as previously stated. Given that the Investment Office has accepted CIM's interpretation of the Agreement and made a management decision to accept the recruitment fees as a property cost; this finding is considered complete.</p> <p>2.2 COMPLETE: The Auditors concur with property management's response. IT costs allocated to the property which are based on time incurred are allowable.</p>

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CIM Group General Partner Property Level Hollywood & Highland (Dec 2008)	<p>3. (IV.B.1-2) Accounting and Financial Procedures: Capital and Tenant Improvements – The Auditors tested 2 capital improvement contractors and 2 tenant improvement projects and noted the following:</p> <p>(1) None of the four contracts tested contained a non-discrimination clause. (2) The insurance certificate for a tenant improvement contractor did not document the worker's compensation statutory limits.</p> <p>(1) The Auditors recommend that property management draft all future capital and tenant improvement contracts with a non-discrimination clause in accordance with section 7.17 of the Agreement. (2) The Auditors recommend that property management ensure that their contractors provide worker's compensation documentation in accordance with the terms of their contracts.</p>	<p>3. (IV.B.1-2) CIM Group response: (1) Hollywood & Highland will implement a non-discrimination clause in all contracts company-wide, both long-form and short-form. For contracts entered between a tenant and its contractor, we will encourage tenants to include non-discrimination language in all of their contracts. (2) The appropriate box will be checked on insurance certificates in the future, indicating that the statutory limits apply.</p> <p>Response from Investment Office: The Investment Office believes the corrective action taken resolves this issue.</p>	<p>3. COMPLETE: The Auditors concur with management's corrective action.</p>

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CIM Group General Partner Property Level Hollywood & Highland (Dec 2008)	<p>4. (IV.C) Accounting and Financial Procedures: Payroll Burden – The Auditors noted that payroll burden included a 10% of gross salaries charge title "Admin Cost". According to property management, this charge was a reimbursement to CIM for payroll processing and other administrative costs. This was considered a non-allowable overhead cost and the responsibility of property management. These allocated costs were estimated at \$150,881 for 2008.</p> <p>The Auditors recommend that property management reimburse the property for the 10% administration charge through payroll. The Auditors further recommend that property management refrain from allocating overhead costs to the property through payroll burden.</p>	<p>4. (IV.C) CIM Group response: CIM has reimbursed Hollywood & Highland for the overhead expenses, and will refrain from charging overhead costs to the property in the future.</p> <p>Response from Investment Office: The Investment Office will confirm reimbursement for \$150,881.</p>	<p>4. IN PROGRESS: The Auditors concur with property management's corrective action.</p>

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CIM Group General Partner Property Level Hollywood & Highland (Dec 2008)	<p>5. (V.A-E) Leasing and Tenant Relations: Lease File Testing – The Auditors noted the following discrepancies relating to tenant's insurance as required by the terms of their respective leases:</p> <p>(A) Three tenants did not have evidence of worker's compensation statutory limits. (B) Two tenants did not have evidence of plate glass replacement. (C) Four tenants did not have evidence of boiler machinery coverage for their air conditioning system. (D) One tenant did not have evidence of tenant's personal property and improvements. (E) One tenant did not have evidence of business interruption coverage.</p> <p>The Auditors recommend that property management obtain and document the above noted insurance coverage required by the respective tenant lease agreements.</p>	<p>5. (V.A-E) CIM Group response: In response to your compliance audit draft report for Hollywood & Highland, I am re-sending the documents that I previously emailed to you in July for the outstanding items (plus two new items not previously sent).</p> <p>Also, a general note regarding Workers Comp: We require documented evidence of a workers comp policy. The liability limits, however, need not be specified on the document, since in the state of California the workers comp limits are statutory.</p> <p>In addition, the Lease section 13(d) includes the following insurance requirement: "Boiler and machinery insurance on the Air Conditioning System (or any part thereof) exclusively serving the Premises". H&H has no tenants who have an Air Conditioning System exclusively serving their Premises. All tenants' chilled water is provided through the Central Plant. This type of insurance coverage, therefore, is not applicable to any of our tenants.</p>	<p>5. COMPLETE: The Auditors concur with management's corrective action.</p>

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CIM Group General Partner Property Level Hollywood & Highland (Dec 2008)	6. (VI) Operations and Maintenance: Third Party Service Contracts – The Auditors noted that the insurance certificate for one service contractor did not have evidence of auto liability as required by Exhibit C to their professional services agreement. The Auditors recommend that property management obtain a revised insurance certificate from the service contractor which contains evidence of auto liability coverage (\$500,000 minimum) in accordance with Exhibit C to their professional services agreement.	6. (VI) CIM Group response: In response to your compliance audit draft report for Hollywood & Highland, I am re-sending the documents that I previously emailed to you in July for the outstanding items (plus two new items not previously sent).	6. COMPLETE: The Auditors concur with management's corrective action.

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CIM Group General Partner Property Level Union Square John Akridge Management Company (Dec 2008)	<p>7. (I.A) General Procedures: Insurance Requirements - Third Party Contractors - The Auditors noted that Section 2.03(d) of the Agreement required that all third-party contractors provide evidence of insurance as specified by the manager. However, there were no specific requirements such as types of insurance or minimum coverage to be retained. During the Auditors review of another CIM property (370 L'Enfant) it was noted that Section 5.02(d) of this Agreement contained specific requirements for contractors, including types of insurance and minimum limits.</p> <p>The Auditors recommend that Section 2.03(d) of the Agreement be amended to include insurance requirements for all third party contractors engaged by property management.</p>	<p>7. (I.A) John Akridge Management Company response: CIM and Akridge will amend section 2.03(d) in the management agreement and spell out the insurance requirements in detail for third party contractor.</p> <p>Response from Investment Office: Pending Investment Office response.</p>	<p>7. IN PROGRESS: The Auditors concur with property management's corrective action plan.</p>

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CIM Group General Partner Property Level Union Square John Akridge Management Company (Dec 2008)	8. (I.B) General Procedures: Responsible Contractor Policy – The Auditors noted no reference to the CalPERS Responsible Contractor Policy. The Auditors recommend that the Agreement be amended to include the following language as it pertains to the CalPERS Responsible Contractor Policy "Manager acknowledges that Owner supports and encourages fair wages and fair benefits for workers it contracts. Manager agreed to follow the procedures attached at Exhibit C in accordance with the Owner's Responsible Contractor Policy."	8. (I.B) John Akridge Management Company response: We note that, as a property owned by CIM Urban REIT, LLC (in which CalPERS is a 25% member), Union Square is specifically excluded from application of the CalPERS Responsible Contractor Program Policy. Nonetheless, the contract will be amended to incorporate a requirement that property management vendors agree to comply with the CalPERS Responsible Contractor Policy regarding fair wages and benefits. Response from Investment Office: The Investment Office believes the corrective action taken resolves this issue.	8. COMPLETE: The Auditors concur with management's corrective action.

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CIM Group General Partner Property Level Union Square John Akridge Management Company (Dec 2008)	<p>9. (IV.A) Accounting and Financial Procedures: Payroll - Engineers – The Auditors noted that account # 5291010 (Engineering Salaries) were not based on actual costs. Akridge allocated these costs based on a full-time equivalent (FTE) calculation.</p> <p>Akridge budgeted 5 engineers for the property, however, only 4 engineers were noted that worked on the property. Based on the methodology used by property management, the property was overcharged by the FTE of one engineer. The amounts charged to the property were included in the approved budget for 2008. However, the methodology was not specifically addressed in the property management agreement.</p> <p>The Auditors recommend that the Agreement be amended to specifically address the basis for charging of payroll costs to the property. Additionally, since only four (4) engineers worked on the property, the Auditors recommend that the property be reimbursed for the extra cost of the fifth engineer that was over-allocated to the property in the total amount of \$97,760.</p>	<p>9. (IV.A) John Akridge Management Company response: Akridge will refund the cost for the 5th engineer charged thus far and will amend the agreement to specifically detail the basis for charging payroll costs to the property.</p> <p>Response from Investment Office: The Investment Office will confirm reimbursement of \$97,760.</p>	<p>9. IN PROGRESS: The Auditors concur with property management's corrective action plans. In addition, the Auditors recommend that the amendment specifically state that the property manager's company-wide allocation cannot exceed the actual cost of the engineers on-site at the property.</p>

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CIM Group General Partner Property Level Union Square John Akridge Management Company (Dec 2008)	<p>10. (IV.B) Accounting and Financial Procedures: Security Deposits – The Auditors noted that the lease agreement for the café reported a \$3,000 deposit which agreed to the amount on the general ledger. However, the rent roll report documented a balance of \$0. Property management indicated that the security deposit was paid upon execution of the lease (prior to CIM ownership). The deposit was transferred to CIM as a purchase price credit.</p> <p>The Auditors recommend that property management adjust the rent roll report and the lease agreement to reflect what was actually collected from the tenant.</p>	<p>10. (IV.B) John Akridge Management Company response: The rent roll has been adjusted to reflect the correct amount of the security deposit from the café.</p> <p>Response from Investment Office: The Investment Office will confirm the rent roll adjustment has been made.</p>	<p>10. IN PROGRESS: The Auditors concur with property management's corrective action.</p>

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CIM Group General Partner Property Level Union Square John Akridge Management Company (Dec 2008)	<p>11. (VI.A.1-3) Operations and Maintenance: Third Party Service Contracts - During the sample testing of 5 third party service contracts, the Auditors noted the following deficiencies:</p> <p>(1) None contained a non-discrimination clause. (2) None contained a requirement to comply with the CalPERS Responsible Contractor Policy. (3) One service contract did not include requirements for insurance coverage. Additionally, the contract rate increase was executed via e-mail.</p> <p>(1) The Auditors recommend that property management amend all third party contracts to include a non-discrimination clause. (2) The Auditors recommend that all future contracts with third party vendors require compliance with the CalPERS Responsible Contractor Policy. For those service contracts that are on-going or month to month, the Auditors recommend that an addendum be executed to include this requirement. (3) The Auditors recommend that all rate increases with third party vendors are documented through a formal wage increase worksheet to be maintained in the contractor's file. Finally, the Auditors recommend that all contracts contain insurance requirements consistent with the Agreement.</p>	<p>11. (VI.A.1-3) John Akridge Management Company responses: (1) Akridge will work with legal counsel to include a non-discrimination clause on all third party contracts. Ongoing and month-to-month contracts will contain an addendum reflecting this requirement. (2) We note that, as a property owned by CIM Urban REIT, LLC (in which CalPERS is a 25% member), Union Square is specifically excluded from application of the CalPERS Responsible Contractor Program Policy. Nonetheless, all new contracts will now include a requirement for compliance with the CalPERS Responsible Contractor Policy regarding fair wages and benefits. (3) Rate increases through for third party vendors will be documented through formal wage increase worksheets in the contractor's file. All contracts now reflect the specific insurance requirements consistent with the Agreement.</p> <p>Response from Investment Office: The Investment Office believes the corrective action taken resolves findings 11.1 and 11.2.</p> <p>For finding 11.3, the Investment Office will confirm the documentation of formal wage increase worksheet and review a sample contract that reflects the specific insurance requirements.</p>	<p>11.1 COMPLETE: The Auditors concur with management's corrective action.</p> <p>11.2 COMPLETE: The Auditors concur with management's corrective action.</p> <p>11.3 IN PROGRESS: The Auditors concur with management's corrective action plan.</p>

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CIM Group General Partner Property Level Union Square John Akridge Management Company (Dec 2008)	<p>12. (VI.B.1-3) Operations and Maintenance: Property Walk-through - During the walk-through of the property, the following items were noted by the Auditors:</p> <p>(1) The plaza area between the two buildings appears in need of repairs. The concrete is damaged and presents potential trip hazards for tenants. Additionally, the membrane below the concrete is decaying. (2) The garage at 825 North Capital had water leaking through the walls adjacent to the plaza. The decaying membrane below the concrete has contributed to the water leaks in the garage. Akridge has been performing patch work. (3) The Auditors also noted that the hand rail on the stairs near the north penthouse was loose and appears in need of repair.</p> <p>The Auditors recommend that property management consider making the necessary repairs to the property as noted above.</p>	<p>12. (VI.B.1-3) John Akridge Management Company responses: (1) Concrete repairs to the Plaza will be completed by the end of October. (2) Garage leaks have been addressed. The capital budget and timeline for replacing the membrane and concrete are being developed in conjunction with negotiations with a prospective major tenant. (3) The repairs to the handrail are complete.</p> <p>Response from Investment Office: Pending Investment Office response.</p>	<p>12. IN PROGRESS: The Auditors concur with property management's corrective actions.</p>

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CIM Group General Partner Property Level Jones Lang LaSalle 370 L'Enfant (Dec 2008)	13. (I) General Procedures: Responsible Contractor Policy – The Auditors noted no reference to the CalPERS Responsible Contractor Policy. The Auditors recommend that the Agreement be amended to include the following language as it pertains to CalPERS Responsible Contractor Policy "Manager acknowledges that Owner supports and encourages fair wages and fair benefits for workers it contracts. Manager agreed to follow the procedures attached at Exhibit C in accordance with the Owner's Responsible Contractor Policy."	13. (I) Jones Lang LaSalle response: We note that, as a property owned by CIM Urban REIT, LLC (in which CalPERS is a 25% member), 370 L'Enfant is specifically excluded from application of the CalPERS Responsible Contractor Program Policy. Nonetheless, the contract will be amended to incorporate a requirement that property management vendors agree to comply with the CalPERS Responsible Contractor Policy regarding fair wages and benefits. Response from Investment Office: The Investment Office believes the corrective action taken resolves this issue.	13. COMPLETE: The Auditors concur with property management's corrective action.
CIM Group General Partner Property Level Jones Lang LaSalle 370 L'Enfant (Dec 2008)	14. (IV.A) Accounting and Financial Procedures: Disbursement Testing – The Auditors noted one payment which was generally considered the responsibility of property management pursuant to Section 2.06. The sampled expense was related to reimbursement for costs associated with the annual property management conference. The amount charged to the property totaled \$2,591. The Auditors recommend that property management reimburse the property for the non-allowable expense noted above. The Auditors further recommend that property management refrain from charging overhead costs to the property.	14. (IV.A) Jones Lang LaSalle response: The property manager will reimburse the non-allowable expense and will refrain from charging overhead costs to the property. Response from Investment Office: The Investment Office will confirm receipt of \$2,591.	14. IN PROGRESS: We concur with property management's corrective action plan.

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CIM Group General Partner Property Level Jones Lang LaSalle 370 L'Enfant (Dec 2008)	<p>15. (IV.B) Accounting and Financial Procedures: CAM Charges – During the Auditors' sample review of the 2007 CAM reconciliations, it was noted that property management has a policy of grossing up operating expenses to 95% of the gross rentable area for purposes of calculating the year end reconciliation of CAM charges. The Auditors noted language in the lease agreements supporting this methodology. However, during their review of the one sampled lease, it was noted that the lease did not contain language regarding the grossing up of expenses.</p> <p>The Auditors also noted that the 95% gross up column on the 2007 operating expenses schedule prepared by property management contained two formula errors. Specifically, the total payroll and general & administrative costs were understated and overstated by \$2,404 and \$60, respectively.</p> <p>The Auditors recommend that the lease agreement for the sampled tenant be amended to include language allowing the 95% gross-up of operating expenses. The Auditors also recommend that property management correct the error on the 2007 operating expense worksheet and provide credits to the tenants for any overcharges.</p>	<p>15. (IV.B) Jones Lang LaSalle response: The gross up of Operating Expenses is a standard industry practice that has been utilized at this building for the past several years, and management does not deem a lease amendment to be necessary at this time. The noted error on the 2007 operating expense worksheet will be corrected and any overcharges will be credited to the respective tenants.</p> <p>Response from Investment Office: Pending Investment Office response.</p>	<p>15. IN PROGRESS: The Auditors concur with property management's corrective action plan. However, the Auditors continue to recommend that the lease agreement for the sampled tenant be amended to include language allowing the 95% gross-up of operating expenses.</p>

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CIM Group General Partner Property Level Jones Lang LaSalle 370 L'Enfant (Dec 2008)	16. (IV.C) Accounting and Financial Procedures: Security Deposits – The Auditors noted that the lease agreement for one sampled tenant stated a required security deposit of \$47,623. However, the rent roll report and the general ledger reported an amount totaling \$43,143. The Auditors recommend that the lease agreement for the sampled tenant be amended to reflect the deposit collected from the tenant.	16. (IV.C) Jones Lang LaSalle response: The Security Deposit received from the sampled tenant was misapplied to Base Rent and has since been re-instated. Response from Investment Office: Pending Investment Office response.	16. IN PROGRESS: The Auditors concur with property management's corrective action.
CIM Group General Partner Property Level Jones Lang LaSalle 370 L'Enfant (Dec 2008)	17. (IV.D) Accounting and Financial Procedures: Capital Improvements - The Auditors noted that the contract file for the lobby renovation work performed by one sampled contractor did not contain a statement that the contractor was compliant with the CalPERS Responsible Contractor Policy. The Auditors recommend that all new contracts with third party contractors include a requirement for compliance with the CalPERS Responsible Contractor Policy.	17. (IV.D) Jones Lang LaSalle response: All new contracts now include a requirement for compliance with the CalPERS Responsible Contractor Policy. Response from Investment Office: The Investment Office believes the corrective action taken resolves this issue.	17. COMPLETE: The Auditors concur with management's corrective action.

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CIM Group General Partner Property Level Jones Lang LaSalle 370 L'Enfant (Dec 2008)	18. (VI) Operations and Maintenance: Third-Party Service Contracts - None of the sampled service contract files documented compliance with the CalPERS Responsible Contractor Policy. The Auditors recommend that all new contracts with third party vendors include a requirement for compliance with the CalPERS Responsible Contractor Policy. For those service contracts that are on-going or month to month, the Auditors recommend that an addendum be executed to include this requirement.	18. (VI) Jones Lang LaSalle response: All new contracts now include a requirement for compliance with the CalPERS Responsible Contractor Policy. Response from Investment Office: The Investment Office believes the corrective action taken resolves this issue.	18. COMPLETE: The Auditors concur with management's corrective action.

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